

New Tax Law Changes Breakout

Bob Erickson and Paul Lyons, of Tax Forms and Publications, provided an overview of 2003 income tax law changes for a breakout session. Listed are some highlights from the presentation:

Tax rate changes

- 27% to 25%
- 30% to 28%
- 35% to 33%
- 38.6% to 35%

- Maximum tax rate on net capital gain reduced from 20% to 15% (and from 10% to 5% for taxpayers in the lowest two tax brackets).

- Most dividends taxed at 15%

Schedule D Redesigned

- Draft of Schedule D should be on IRS website in June.

Marriage Penalty Relief

For married taxpayers filing jointly and surviving spouses:

- 15% rate bracket expanded to twice that of single taxpayers
- Standard deduction is increased to \$9,500

Additional Tax Relief

- 10% tax bracket extended to \$7,000 for single taxpayers and married taxpayers filing separately (\$14,000 for married taxpayers filing jointly and surviving spouses)

Section 179 Expense Deduction

- Max increase to \$100,000
- Phase out begins when section 179 property exceeds \$400,000
- Off-the-shelf computer software now qualifies as section 179 property

Special Depreciation Allowance

- Special Depreciation increases to 50% for property acquired after May 5, 2003
- Taxpayers may elect to use existing 30% allowance or elect out entirely for any class of property
- If the 50% allowance applies, the limit on depreciation and section 179 deduction is increased by an additional \$7,650.

Form 4562

- Revised 2002 instructions for fiscal year taxpayers. Form will remain the same.

Child Tax Credit

- Max credit increases to \$1,000 per child
- Advance payment of increased portion of credit (max of \$400 per child) to be paid in July – August 2003 based on 2002 tax return information.

Child and Dependent Care Credit

- Maximum rate increases to 35%

Lifetime Learning Credit

- Limit on qualified expenses doubles to \$10,000
- Maximum credit doubles to \$2,000

Adoption Credit and Exclusion

- For a child with special needs, credit will be a flat \$10,160 (before reduction due to AGI or tax liability limits)
- Exclusion for employer-provided adoption benefit for a child with special needs is \$10,160 (before reduction due to AGI limit)

Estimated Tax Changes

- Safe harbor is reduced to 110% of prior year's tax for individuals whose 2002 AGI was over \$150,000
- For corporations only: 25% of the installment otherwise due in September 2003 is now due October 1, 2003
- New Form 8886, Reportable Transaction Disclosure Statement

Pending Legislation

Armed Forces Tax Fairness Act of 2003 (H.R. 1307)

CARE Act of 2003 (S. 476)

Bob closed the session and told audience that the PowerPoint slides are expected to be posted on the IRS website within the next 30 days.

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